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## Vietnam

## Coffee

## Annual report

## 2006

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**Report Highlights:**

Production in 2006/07 should increase more than 10 percent as improved weather increases yield. However, planted area will stay flat as farmers are unsure whether current high prices will last.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Semi-Annual Report  
Hanoi [VM1]  
[VM]

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## SECTION I: STATISTICAL TABLES

Table 1: Vietnam's coffee Production, Supply and Demand (PSD table)

Country Vietnam  
Commodity Coffee, Green

(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2004		10/2005		10/2006
Area Planted	500	500	500	495	0	495
Area Harvested	495	495	485	485	0	485
Bearing Trees	619	619	605	605	0	610
Non-Bearing Trees	6	6	12	12	0	6
TOTAL Tree Population	625	625	617	617	0	616
Beginning Stocks	300	300	300	190	198	178
Arabica Production	383	383	333	333	0	350
Robusta Production	14117	14117	12000	12000	0	13500
Other Production	0	0	0	0	0	0
<b>TOTAL Production</b>	<b>14500</b>	<b>14500</b>	<b>12333</b>	<b>12333</b>	<b>0</b>	<b>13833</b>
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
<b>TOTAL SUPPLY</b>	<b>14800</b>	<b>14800</b>	<b>12633</b>	<b>12523</b>	<b>198</b>	<b>14011</b>
Bean Exports	13900	13950	11817	11667	0	13000
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	17	42	18	42	0	45
<b>TOTAL Exports</b>	<b>13917</b>	<b>13992</b>	<b>11835</b>	<b>11709</b>	<b>0</b>	<b>13045</b>
Rst, Ground Domestic Consumption	583	583	600	600	0	618
Soluble Dom. Consumption	0	35	0	36	0	37
TOTAL Dom. Consumption	583	618	600	636	0	655
Ending Stocks	300	190	198	178	0	311
<b>TOTAL DISTRIBUTION</b>	<b>14800</b>	<b>14800</b>	<b>12633</b>	<b>12523</b>	<b>0</b>	<b>14011</b>

**Table 2: Vietnam's export trade matrix**

<b>Country</b>	Vietnam		
<b>Commodity</b>	Coffee, Green		
Time Period	Oct.-Mar.	Units:	MT
Exports for:	2004		2005
U.S.	92123	U.S.	66801
Others		Others	
Germany	77492	Germany	63074
Spain	34745	Spain	39736
Italy	33862	Italy	28844
Korea	18524	Korea	16099
England	16860	England	13298
Belgium	16045	Poland	13125
France	15657	Ecuador	11434
Ecuador	12159	Japan	10447
Philippines	10882	Belgium	10318
India	9158	Mexico	10175
Total for Others	245384		216550
Others not Listed	149093		87649
Grand Total	486600		371000

**SECTION II: SITUATION AND OUTLOOK****PRODUCTION****Vietnam's 2005/06 Coffee Crop**

Post keeps Vietnam's 2005/06 estimated coffee production unchanged from earlier estimates at 740 tmt (12.33 million bags) down significantly from 2004/05 due to unfavorable weather.

**Vietnam's 2006/07 coffee Crop**

Vietnam 2006/2007 coffee production is forecast at 830 tmt (13.83 million bags) due to better weather in late 2005 and early 2006 as compared to the same period in the previous crop year. Post estimates coffee yield and production of the 2006/07 crop will increase by more than 10 percent.

**Table 3: Vietnam Coffee Production in Metric Tons (Marketing Year, Oct-Sep)**

Unit: thousand tons

	2004/05		2005/06		2006/2007	
Marketing year begins	10/2004		10/2005		10/2006	
	Old	Revised	Old	Revised	Old	Revised
Sown Area (thousand ha)	500	500	500	495	500	500
Area Harvested (thousand ha)	495	495	485	485	450	485
Beginning Stock	18	18	18	11	29	11
Production (green bean)	870	870	740	740	730	830
Average coffee yield (ton/ha)	1.76	1.76	1.53	1.53	1.62	1.71

Source: Vicofa, FAS estimate

## CONSUMPTION

Post estimates Vietnam's CY 2005/2006 domestic consumption at 38 tmt (or 636,000 bags). Consumption in the next crop is forecast to increase by 3 percent to more than 39 tmt (or 655,000 bags). However domestic consumption will still only be 5 percent of total production.

In recent years both ground and soluble coffee products have been gaining acceptance in the domestic market. Cafe Moment, Vinacafe, Nescafe, Trung Nguyen, G7, Truc Tam, VN, Simexco, and Bien Hoa are popular brands. There are more than 20 brands of soluble coffee products alone. However, just a few key players dominate the market, Vinacafe accounts for 50.4 percent of the market and Nescafe for 33.2 percent.

## STOCKS

No official data on coffee stocks are available in Vietnam. Post has revised down the carry-in stocks for 2005/06 because of higher than expected exports in 2004/05. Foreign buyers are currently holding most stocks. According to coffee traders, coffee prices should be stable through the rest of 2005/06. As a result, most growers have already sold their coffee. Good export prices should allow Vietnam to further reduce stocks by the end of 2005/06.

## TRADE

According to the Vietnam Coffee and Cocoa Association (VICOFA) and Ministry of Trade (MOT), Vietnam's coffee exports in the first 6 months of 2005/06 dropped in volume, but increased in value. Vietnam's coffee exports during the period were recorded at 371 tmt (6.18 million bags), a drop of 15 percent compared with the same period a year before. However, coffee export value increased by 25 percent (see table 4).

Post estimates Vietnam's 2005/2006 coffee export at 700 tmt (11.7 million bags).

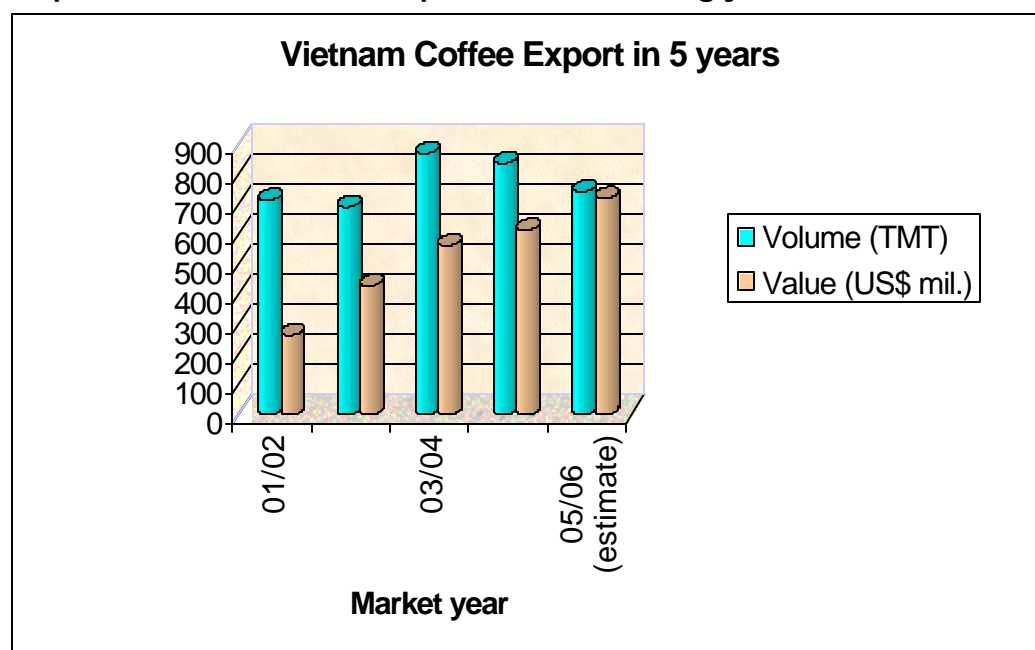
In the first half of the CY 2005/2006, the United States and Germany remained the top importers of Vietnamese coffee. Spain, Italy and the Republic of Korea rounded off the list of the top five buyer countries.

Table 4: Vietnam's coffee exports in 5 marketing years

Month	2001/2002		2002/2003		2003/2004		2004/2005		2005/2006		% Change of MY 04/05 & 05/06	
	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol.	Value
Oct.	44	15	64	32	46	30	65	40	57	46	-12	15
Nov.	62	20	54	30	55	35	55	34	55	46	0	35
Dec.	88	28	64	38	85	53	87	56	63	57	-27	2
Jan.	94	31	67	44	69	44	82	54	64	66	-22	22
Feb.	72	23	54	37	87	57	64	43	52	56	-19	30
Mar.	72	26	62	40	83	54	82	60	80	89	-2.4	48
<b>Sub-total</b>	<b>432</b>	<b>143</b>	<b>365</b>	<b>221</b>	<b>425</b>	<b>273</b>	<b>435</b>	<b>287</b>	<b>371</b>	<b>360</b>	<b>-15</b>	<b>25</b>
April	43	17	54	34	83	54	82	63				
May	46	19	56	37	79	52	71	59				
June	37	16	58	36	119	79	71	59				
July	45	20	56	35	56	37	65	54				
Aug.	52	22	54	34	51	33	58	48				
Sept.	59	27	48	32	56	35	55	45				
<b>Grand Total</b>	<b>714</b>	<b>264</b>	<b>691</b>	<b>429</b>	<b>869</b>	<b>563</b>	<b>837</b>	<b>615</b>				

Source: Vicofa and Ministry of Trade

Graph 1: Vietnam's coffee exports in 5 marketing years



Source: Vicofa

## PRICES

Average prices of Vietnam Robusta coffee bean (grade 1) were between VND 17,500-18,500/kg (\$1.1-\$1.16/kg) in March 2006, an increase of 28 percent compared with prices quoted in October 2005 and double what they were 18 months ago. However, in recent months the rise has moderated. In March price decreased by 6 percent compared with the previous month. This is in line with recently moderating world prices.

Table 5 illustrates Robusta coffee prices in Dak Lak, the largest coffee-producing province in Vietnam. Local prices for the very small Arabica crop are stated in Table 6.

**Table 5: Robusta coffee bean domestic prices in Dak Lak province in the first half of 2005/2006 crop.**

Unit: VND/kg

Month	Coffee grades		
	General Robusta bean VND/kg	Robusta coffee grade R1 VND/kg	Robusta coffee grade R2 (5%) VND/kg
Oct. 05	12,500-13,500	13,500-14,600	12,900-14,200
Nov. 05	13,500-14,500	15,500-16,200	15,000-15,500
Dec. 05	15,300-16,300	16,600-16,800	16,000-16,100
Jan. 06	17,600-18,500	19,300-19,800	18,900-19,500
Feb. 06	17,700-18,200	19,000-19,400	18,700-19,100
Mar. 06	16,500-17,500	17,500-18,500	16,500-17,800

Source: Vicofa, MOT, MARD, FAS (\$1=VND 15,900)

**Table 6: Arabica coffee bean prices in Lam Dong province in the first half of 05/06 crop**

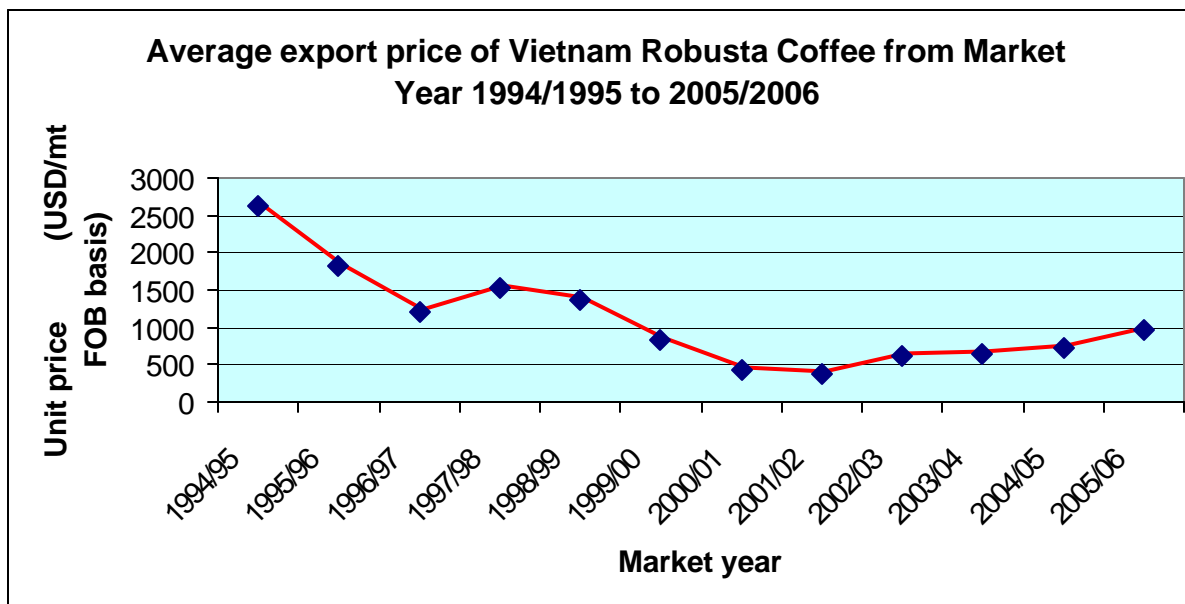
Unit: VND/kg

Coffee grades	Oct 05	Nov. 05	Dec. 05	Jan. 06	Feb. 06	Mar. 06
Arabica coffee – Grade 1	23,000- 25,500	25,000- 25,700	27,000- 27,500	29,000- 29,100	29,000- 29,100	22,500- 25,500

Source: Vicofa, MOT, MARD, FAS (\$1=VND 15,900)

According to local traders, domestic coffee prices should maintain their current high level in the second half of the 2005/2006-crop year because of this year's smaller crop. Despite lower coffee harvest volume this crop, the typical coffee growers seem to be pleased with current prices as they can earn some profit from selling coffee. Plantings have not increased however as farmers realize the return of better weather and increased production in 2006/07 could well mean lower prices.

Since 95 percent of production goes to export, export prices are closely related to domestic prices and have followed the same general trend. So far, the monthly average export price in MY 2005/06 is the highest in the last 5 years. The selling price in February 2006 was sometimes higher than USD 1,200/mt on an FOB basis, the highest selling price in the last 6 years. However, prices are still far off historical highs (see graph 2 below).

**Graph 2: Vietnam's average coffee export prices in 12 marketing years**

Source: Vicofa

## POLICY

With the lessons learned from the over supply of coffee that contributed to the sharp drop in world prices over the last decade, Vietnam's government has readjusted its coffee strategy toward a more rational production. The government is encouraging Robusta farmers in marginal areas to replace their coffee with other crops such as cashew, cocoa or subsistence crops. In suitable areas (i.e. high altitudes) the government promotes the careful and slow expansion of Arabica plantations. The key policy goal is for Vietnam Coffee to reduce both coffee area and production and adjust quality until it is in better long-term equilibrium with the world market.

The government is proceeding only slowly with market reforms in the coffee sector. In March 2006, the Prime Minister promulgated a decision to restructure the Vietnam Coffee Corporation (Vinacafe), the main state company involved in the sector. Some of Vinacafe's subsidiaries will be dissolved and one third of its companies will be maintained as before. However the majority will become joint stock companies with a ratio of 51 percent state to 49 percent private shares. In 2005, Vinacafe posted a profit of VND90 billion (\$5.6 million) after 5 consecutive years of loss. The biggest loss was VND268 billion (\$17 million) in 2001 with a total loss over the period of about VND350 billion (\$22 million). The restructuring is intended to make the company more competitive but the limited scope reflects the continued desire of elements in the government to maintain some state influence.

## OTHER INDUSTRY ACTIVITIES

- The Ministry of Science & Technology approved new government technical standards TCVN 4193: 2005 for coffee beans in its decision No. 227/QĐ-BKHCN dated 17<sup>th</sup> February 2006.
- In Vietnam, an increasing number of companies have products licensed with Utz Kapeh certificates (sustainable coffee production certificates). At present, there are 6 companies having Utz Kapeh certificate for their coffee products. These are Thang Loi, Phuoc An, Eapok and Thang Muoi in Daklak province; Tan Lam in Quang Tri province and Atlantic Commodities Vietnam Ltd (ACOM) in Lam dong province. Volumes though are still relatively small.